

From: Tschupp, Edward
Sent: Friday, June 03, 2005 2:28 PM
Subject: RE: Dept. of Water

I can neither confirm nor deny whether Mr. Micken has accurately recalled statements made by Ernest Lau. I do feel compelled to make two observations on this correspondence, however. One comment is that it might be helpful if Mr. Micken could provide more information on the approximate time frame of when the discussion occurred. Mr. Lau's term as Manager dated from approximately 1996 through January of 2003, during which period the Department completed the major update of our water system analysis and master planning effort known as Water Plan 2020. Clearly the discussion that Mr. Micken is recalling occurred more than two years ago, and may have pre-dated Water Plan 2020. My second comment is it would be helpful if Mr. Micken could elaborate on the context of the discussion. I recall several years ago the Department had some discussions on establishing reserve accounts, but for various reasons, possibly including limitations established by state law on how much an agency is allowed to put into financial reserves, the Department abandoned the idea of formally establishing reserves.

The concept of establishing and maintaining reserve accounts involves considerable fiscal and accountancy questions, and would not be a trivial or inexpensive undertaking. To establish such a system at this time would certainly require significantly higher rate increases than are required following a "pay as you go" or debt financing approach, the two funding strategies currently in use by the Department. That is because in addition to the revenue requirements for current operations and the current level of capital spending, additional revenues would be needed to establish the reserves, and the only source of those additional revenues would be from increased water rates.

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